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JAPAN AND SOUTHEAST ASIA: AN UPDATE

Summary

Members of the Association of Southeast Asian Nations experienced rapid economic expansion in 1987 and 1988. Growth, however, was unevenly distributed. Some economies boomed, such as Singapore's and Thailand's. Other countries, such as Indonesia, registered only moderate growth. While opportunities continue to open for Asean, some members complain of the unequal benefits of association. Despite difficulties, however, Asean remains viable, with other Southeast Asian countries seeking membership.

Japan maintains strong economic ties with the Asean countries. Its two-way trade with the six members represented roughly 10 percent of combined Japanese exports and imports in 1987 and the first nine months of last year. Japanese corporate investors are putting an increasing amount of money into the region, including $1.5 billion in direct investment in FY 1987. Moreover, Asean remains a focal point of Tokyo's aid program, accounting for nearly one-third of disbursements in 1987.

Overview

Japan's economic relationship with the Association of Southeast Asian Nations -- an economic and political grouping that includes Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand -- has three major facets: trade, foreign direct investment and foreign aid. All three linkages have been strengthened in the last two years. The ties are essential for the economic vitality of Asean as well as for Japan, which has a traditional interest in the area. The phenomenal success of postwar Japan has made it possible for Tokyo to serve as both benefactor and role model for Asean.

Trade - Japan traditionally has run a large trade deficit with the six Asean countries, mainly because of its substantial purchases of mineral fuels from the group -- crude oil and petroleum products from Indonesia and, to a lesser extent, Malaysia, plus refined oil products from Singapore and liquefied methane gas from Indonesia, Malaysia and Singapore. The imbalance reached a record $9 billion in 1985 before dropping to $4.4 billion the next year and then to $4 billion in 1987 (see Table 1), in part because of the favorable

Table 1: Japan's Trade with Asean, 1984-88

(in millions of dollars; exports f.o.b., imports c.i.f.)

	1984	1985	1986	1987	Nine Months 1988
Brunei					
Exports	$72	$90	$58	$41	$50
Imports	2,203	1,892	1,285	1,184	885
Trade Balance	-2,131	-1,802	-1,227	-1,143	-835
Indonesia					
Exports	3,073	2,173	2,662	2,990	2,229
Imports	11,176	10,119	7,311	8,427	7,377
Trade Balance	-8,102	-7,947	-4,649	-5,437	-5,148
Malaysia					
Exports	2,875	2,168	1,708	2,168	2,134
Imports	4,412	4,330	3,846	4,772	3,542
Trade Balance	-1,537	-2,162	-2,137	-2,604	-1,408
Philippines					
Exports	1,080	937	1,088	1,415	1,249
Imports	1,419	1,243	1,221	1,353	1,530
Trade Balance	-339	-307	-133	62	-281
Singapore					
Exports	4,610	3,861	4,577	6,008	6,018
Imports	1,775	1,594	1,463	2,048	1,741
Trade Balance	2,835	2,267	3,113	3,961	4,277
Thailand					
Exports	2,426	2,030	2,030	2,953	3,619
Imports	1,040	1,027	1,391	1,796	1,938
Trade Balance	1,385	1,004	639	1,157	1,681
Total Asean					
Exports	14,134	11,257	12,123	15,574	15,299
Imports	22,024	20,205	16,517	19,579	17,013
Trade Balance	-7,887	-8,948	-4,394	-4,005	-1,714

Source: Japan Tariff Association, The Summary Report: Trade of Japan

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impact of the dollar's weakening value on imported oil and gas prices. The decline in international oil prices in 1988 helped to narrow the gap further, reducing it to $1.7 billion in the first three quarters of the year from $2.9 billion in the same period of 1987, but a bigger factor was another jump in Japan's exports to the Asean members, particularly to Singapore and Thailand.

The downward trend in Japan's trade deficit with Indonesia, Malaysia and the Philippines over the last three years and the simultaneous increase in Japan's trade surplus with Thailand obviously have made it harder for these four countries to get a handle on their external debt problems. While this has added an undercurrent of tension to the Japan-Asean relationship, Asean's main trade gripe remains the composition of Japan's imports from the region (see Table 2, and for comparison see Table 3, Japan's exports to Asean). Asean officials repeatedly charge that Japan continues to regard the six-country group merely as a source of agricultural commodities and industrial inputs (including not only oil and gas but such other materials as iron ore, nonferrous scrap, rubber and wood) rather than as a supplier of a fast-expanding list of manufactured products. Manufactures, they add, made up just 16.8 percent of Japanese purchases from Asean in 1987 -- a far cry from the overall import ratio of 40.5 percent and a development that continues to hobble the region's attempts to build up its economic infrastructure and manufacturing capabilities.

Direct investment - With the appreciation of the yen over the past three years, Japanese companies are investing more money in production facilities in Asia. Among the favored sites are neighbors that belong to Asean. The six nations welcome the investments as a way to speed their economic development and to become the latest economic "tigers." Japan also is often seen as an appropriate model to emulate (see JEI Report No. 28A, July 22, 1988).

Illustrating their quick study in economics, the Asean nations hope that the appreciation of the yen will send Japanese manufacturers scrambling to invest in countries with lower costs of production. Equally savvy, Japanese corporate executives hope that Asean countries will offer incentive packages to companies interested in moving production offshore.

As proof of joint accommodation, Japanese direct investment in Asean countries increased significantly in FY 1987, particularly in Indonesia (see Table 4). This surge was in marked contrast to trends in the mid-1980s when Japan's annual direct investment in Asean was relatively flat or in some cases even decreased. This development had concerned Asean leaders as they saw Japanese capital bypassing a traditional area of interest in favor of the United States or Europe. In December 1988 representatives of Asean met with the Japanese in the hopes of increasing direct investment flows further.

Asean also sees Japan's direct investments as encouraging technology transfers, as well as helping to create a manufacturing base. Such technological investments are not viewed as a threat to the local manufacturing community because the Japanese plants usually produce goods for export, which are not a threat to domestic markets.

In looking for a place to invest, Japanese businesses also are closely scrutinizing regional stability. Many of the Asean countries are plagued by actual or potential political instability, including changes of government and

Table 2: Japan's Imports from Asean, 1987

(in millions of dollars)

	Indonesia	Malaysia	Philippines	Singapore	Thailand
Mineral Fuels	$6,327	$1,795	$24	$1,044	$3
Food	535	90	547	61	785
Ores and Scrap	285	108	345	39	9
Other Raw Materials	299	2,348	157	41	471
Chemicals	36	73	50	294	49
Machinery and Transport Equipment	2	92	35	317	116
Other	944	266	194	252	363
Total	8,427	4,772	1,353	2,048	1,796

Source: Japan Tariff Association, The Summary Report: Trade of Japan

Table 3: Japan's Exports to Asean, 1987

(in millions of dollars)

	Indonesia	Malaysia	Philippines	Singapore	Thailand
Machinery and Transport Equipment	$1,920	$1,442	$700	$4,116	$1,682
Metals and Metal Products	473	296	196	602	581
Chemicals	325	157	180	335	376
Textiles	71	76	112	225	75
Nonmetallic Mineral Products	35	20	50	127	28
Other	166	177	177	603	211
Total	2,990	2,168	1,415	6,008	2,953

Source: Japan Tariff Association, The Summary Report: Trade of Japan

internal political struggles, as well as shifting economic fortunes. Analysts generally regard Singapore as the most politically and economically stable of the six Asean members, a view underscored by the recent growth there in Japanese investment and trade. Singapore has been trying to position itself so that it will appeal to nervous investors and emerge as a strong Asian financial center when Hong Kong reverts to Chinese control in 1997.

Table 4: Japan's Direct Investment in Asean, FY 1983-FY 1987

(in millions of dollars)

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total March 31, 1988
Brunei	$2	$5	$1	$1	$---	$107
Indonesia	374	374	408	250	545	9,218
Malaysia	140	142	79	158	163	1,446
Philippines	65	46	61	21	72	985
Singapore	322	225	339	302	494	3,065
Thailand	72	119	48	124	250	1,134
Total Asean	975	911	936	856	1,524	15,955

Source: Ministry of Finance

During the 1987 Asean summit held in Manila, Prime Minister Noboru Takeshita pledged a $2 billion package of loans to the Asean nations to help them develop their industrial bases. The first country to benefit from the Asean-Japan Development Fund will be Malaysia, which is to receive a development loan of $332 million, according to a December 16, 1988 announcement.

The fund is a part of a broader Japanese effort to recycle $20 billion of its current account surplus to the Third World. Two types of loans are envisioned. Financing for joint projects by any group of countries in Asean will be made available at below-normal terms by the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund. Loans to individual countries also will be provided. The Export-Import Bank will make individual loans to all six Asean nations, while the Overseas Economic Cooperation Fund will extend individual loans to only the four needier Asean countries -- Indonesia, Malaysia, the Philippines and Thailand.

The AJDF also promotes foreign direct investment in Asean joint venture projects by linking private capital from Japan with the Japan-Asean Investment Corp., a government-backed organization set up in 1981 to facilitate development of the Asean economies. The first venture created in 1988 under the JAIC selected five promising projects, including a magnetic-head manufacturing operation in Thailand. Following that success, a second investment project was being negotiated in the fourth quarter of 1988.

Foreign aid - Japan traditionally has concentrated its aid in Asia, following a 7-1-1-1 formula. According to Ministry of Foreign Affairs figures,

65.1 percent of official development assistance went to Asia in 1987 (see JEI Report No. 43A, November 11, 1988). Aid to Asean alone accounted for 32 percent of the total -- or about the same figure as in 1985 (31.3 percent) after a big drop in 1986 to only 23.8 percent of overall disbursements. As in most earlier years, the four lower-income Asean countries were among the top 10 aid recipients in 1987. Indonesia was Japan's number-one recipient, receiving $707 million in grants, loans and technical assistance. Close behind second-place China were the Philippines (third-ranked at $379 million), Thailand (sixth with $303 million) and Malaysia (seventh at $276 million).

Of Indonesia's $707 million in aid, $570.7 million was in the form of loans and $136.6 million consisted of grants and technical assistance. The loan element of the Philippines' aid was $267.6 million, while grants and technical assistance came to $111.8 million. Thailand had close to an even split, with $166.9 million in loans and $135.6 million in grants and technical assistance. The Malaysian package was comprised of $227.7 million in loans and only $48.7 million in grants and technical assistance.

Although Brunei does not normally need economic assistance from Japan, in 1987 it received $2.8 million in technical assistance, considered grant aid. Similarly, Singapore obtained $15.9 million in technical assistance and $1.4 million in grants, but it repaid $6.1 million in loans for a total of $11.2 million in Japanese ODA for 1987.

Country By Country Developments

Indonesia - Japan's direct investment in Indonesia reached $545 million in FY 1987, its highest level since FY 1982 when Japanese investors put up $2.4 billion to build a major aluminum ingot production facility. Japan continues to run a large trade deficit with Indonesia, a major supplier of oil. The deficit rose to $5.4 billion in 1987, up from the recent low of $4.7 billion in 1986. The figure for January-September 1988, $5.2 billion, indicates that Japan's trade with Indonesia was even farther in the negative column last year than in 1987.

In 1981 Indonesia and its major economic partner, Japan, began construction of an aluminum ingot plant in Sumatra. This project has caused tensions between the two countries in recent months, partly because Indonesia is seeking to alter the terms of the original contract. Currently Japan receives two-thirds of the ingot produced in Sumatra, while Indonesia gets one-third. Indonesia wants 60 percent of the output, which it plans to export to countries other than Japan. To pressure Japan into agreeing to its plan, Indonesia temporarily cancelled all shipments to Japan in July 1988. Exports from the Asahan aluminum complex began again October 8, an indication of some progress in talks between the two countries. The two sides met December 21 and 22 to discuss possible changes in the allocation formula. Earlier in the month Japan had tentatively agreed to reduce its share to three-fifths starting in January.

Complicating the dispute is the Indonesian official who helped turn the issue into an international problem. After making a public outcry charging Japan with global avarice, the Indonesian official, Abdul Rauf Suhud, chairman of Asahan Authority, which runs the project, was discovered to have helped create a downstream production company called PT Asahan Aluminum Alloys, which

stands to gain handsomely from a change in the output ratios. While Indonesia's stake in the ingot project is 41 percent, Mr. Suhud believes that its quota should be larger because of the "benefits package," including tax incentives and water for electric power generation, provided by the government.

Although a few shipments of aluminum to Japan have occurred since July, the Japanese partners have been angered by Indonesia's "breach of contract." Half of the 59 percent interest Japan has in the project is owned by a group of 12 Japanese companies, while the other half is held by the Japanese government. The dispute has significantly dampened the climate in Indonesia for Japanese investment, where Japan is both the largest foreign investor and the biggest aid donor.

Nevertheless, another joint venture in the works involves the construction of two large oil refineries. In addition to Japan and Indonesia, this venture will include Saudi Arabia, which will supply 80 percent of the crude oil. Indonesia, which will provide the remaining 20 percent, has been struggling under the double burden of the fall in international oil prices and the decline in the value of the U.S. dollar vis-a-vis other major currencies. Since oil is the major source of export earnings for Indonesia and since it is priced in dollars, Indonesia has found it increasingly difficult to repay loans, especially loans denominated in ever-stronger yen.

In order to facilitate debt repayment, Japan's Export-Import Bank made its first dollar-denominated loan to Indonesia in mid-1988. Jakarta had been actively campaigning for the $200 million loan to be in dollars. Approximately 40 percent of Indonesia's external debt is comprised of yen-denominated loans. The fall in world oil prices and the appreciation of the yen have added some $1.5 billion to Indonesia's debt-service payments in the past two years.[1]

Another area in which Indonesia is looking to Japan for advice and technical cooperation is infrastructure. Indonesia is hoping to find a way to connect its two main islands, Java and Sumatra, thereby facilitating passenger traffic and freight flows within the country. Among the proposals are a tunnel similar to the one that connects Japan's Honshu and Hokkaido islands or a bridge like the one that joins Honshu with long-isolated Shikoku island. Japan's Seikan Tunnel, which is the world's longest at 33.5 miles, took 25 years to complete. Following a similar time schedule, Indonesia expects to connect Java and Sumatra, separated by nearly 25 miles of water, by the year 2030.

Philippines - President Corazon Aquino expressed her concerns in November 1988 about the survival of Asean. The greatly disparate economic development of the member countries could lead to a breakdown of economic and possibly political cooperation among the six nations, she worries. In addition, uneven development would put weaker economies, such as the Philippines, at a disadvantage in any future Asean trading block.

The Philippines, looking for ways to beef up its economy, has sought foreign direct investment. Japanese investments in the Philippines rose greatly during the first three quarters of 1988, more than tripling in terms of the

[1]Nigel Holloway, "Japan's Dollar Donor," Far Eastern Economic Review, September 1, 1988, p. 47.

Philippine peso from the same period of 1987. The Japanese were the third-largest investors in the Philippines in that span, investing $75.6 million, compared with $109 million for the Taiwanese and $88.9 million for the Americans.

Philippines Trade and Industry Secretary Tomas Alcantara stated in November that Manila is seeking Japanese investment to facilitate trade between the two countries. One type of venture may be a transfer from Japan to the Philippines of shipbuilding, one of the country's sunset industries. Small- and medium-sized shipbuilding operations in Japan that are no longer internationally competitive might prove cost-effective in the Philippines where labor is far less expensive. This also would benefit the Philippines by providing new ships for the domestic market to replace the outdated vessels currently being used.

In order to facilitate more investment in the Philippines, Japanese businesses have requested a change in Philippine investment laws to allow foreigners to own a larger share of the joint ventures that are mandatory for offshore investors. The Philippine Board of Investment is considering the request, which was made in December. Currently Filipinos must own 60 percent of a business. Under the system being requested, Filipino ownership would be 40 percent, with another 40 percent share owned by the foreign partner or partners and 20 percent by the Japan-Asean Investment Corp. Joint ventures in which JAIC would like to be involved include electronics and automotive projects and resort development.

Now is a key time for the Philippines to take advantage of Japanese capital and know-how to develop manufactures for export. The preferential tariff treatment the United States gives to selected exports from developing countries under the Generalized System of Preferences ended December 31 for Asia's four "tigers" -- Taiwan, Hong Kong, South Korea and Singapore. Their economies are seen as strong enough to function well without such help. Many trade experts see this as a great opportunity for countries like the Philippines to take full advantage of GSP treatment.

In 1987 the Philippines ranked last among Asian Pacific developing countries in terms of GSP benefits, with only $329 million worth of goods entering the United States. By contrast, Taiwan had $4.2 billion worth of exports, while South Korea had $2.5 billion, Hong Kong $1.7 billion and Singapore $1.3 billion.[2] Clearly the Philippines has much room to expand. Some companies may be considering a shift from the newly industrialized economies, such as Singapore, to the Philippines to take advantage of GSP.

As the Philippines seeks to strengthen its weak economy through foreign direct investment, economic assistance, and a drive to switch to manufactured exports rather than rely on shipments of primary products, Filipino legislators are taking action to limit repayment of the country's huge foreign debt. The Philippine Senate in late November passed a bill to limit foreign debt repayments to 20 percent of export earnings, although Pacific Rim watchers expect President Aquino to veto the measure. The Philippines has used approximately 29 percent of its export earnings and more than 25 percent of the state budget

[2]"Philippines Urged To Capitalize On U.S. Preference Program," Journal of Commerce, November 18, 1988.

in recent years to repay its debts.[3] The government is trying to reach agreement with its foreign creditors to reschedule at least some of the $28 billion in loans made to the Philippines.

In December Tokyo extended its 15th yen loan package to the Philippines. Valued at $709 million, it is the largest yen loan to date provided to Manila. The loan will reflect the new, lower interest rates now being charged by Japan -- in this case, a fixed rate of 2.7 percent a year. The repayment period ranges from 25 to 30 years, which includes a grace period of seven to 10 years, varying for different loans in the package.

The latest Japanese loan package will be used in part to strengthen Philippine infrastructure. For the first time there is a $120 million joint loan with the Asian Development Bank for the development of forests. The tropical forest in the Philippines is being threatened by "development" projects. The forest is often ravaged, despite some laws against it, by logging interests or by local farmers who, lacking an understanding of conservation, slash and burn small sections of the forest and plant subsistence crops for one or two seasons before moving to another plot and repeating the cycle.

Thailand - Thailand is considered to be poised to become one of the second generation of newly industrialized economies. The past three years have seen economic expansion at rates above 7 percent and soaring foreign direct investment in the country. Investments by Japanese companies catapulted from $50 million in 1986 and $150 million in 1987 and to an incredible $360 million in the first quarter of 1988 alone. Investors have been looking to Thailand in recent years in part because its exports to the United States still will receive GSP treatment. Also, Thailand's labor costs have been lower than those of the NIEs. Recently, however, Thai wage levels, especially those of engineers and skilled technicians, have been rising sharply, possibly leading overseas investors to look at the Philippines or Malaysia as alternatives.

Among the other problems that Thailand has been experiencing due to its rapid economic expansion has been land speculation by foreigners. It is illegal for foreigners to own land in Thailand except for foreign investment projects approved by the Board of Investment or projects that develop industries in specific sectors. Land prices have shot up in recent months as investors tried to grab prime real estate in rapidly developing sections of Thailand.

To continue fueling the economy, the Thai government has approved a growth-oriented budget for 1989 in sharp contrast to the austerity measures of recent years. Much of the extra money is earmarked for improving the economic infrastructure -- a longstanding complaint of potential Japanese investors in Thailand.

Malaysia - Malaysia has begun an aggressive campaign to secure foreign direct investment that has been going to Singapore and Thailand in recent years. The inducements include decreasing the corporate tax rate from 40 percent to 35 percent, accelerating depreciation for the petroleum industry, providing additional tax breaks for multinational corporations with regional headquarters offices in Malaysia, giving special "pioneer status" to small and

[3]"Debt Payment Curb in Manila," The New York Times, November 28, 1988.

medium-sized companies, and allowing tax deductions for capital expenditures for agricultural ventures.[4]

Malaysia succeeded in December 1988 in luring Seiko Epson Corp. to establish a subsidiary there. The Malaysian plant will produce watch parts, which will be sent to Singapore for plating and then to Japan or Hong Kong for final assembly. Seiko Epson originally planned to establish its plant in Thailand, but Malaysia has more lenient standards for waste water disposal, which made the project seem more economically feasible.

Singapore - Singapore, along with Brunei, is one of the two Asean countries with high per-capita income and strong economic prospects. It experienced growth estimated at 11.1 percent in 1988, which outpaced the projected NIE average of 9.2 percent and the forecast Asian Pacific regional average of 8 percent, the United Nations Economic and Social Commission for Asia and the Pacific reported in late December. Although Singapore will lose its status under the U.S. GSP, its economy is expected to remain strong this year.

Prospective Asean Members

Looking for ways to attract capital and increase export earnings in their economically weak states, several Southeast Asian countries with state-run economies are hoping to join the free trade-oriented Asean. Furthermore, Asean is seen as playing a positive role in promoting regional stability.

Vietnam - Though not currently a member of Asean, Vietnam has expressed its desire to join. In a meeting with Philippine officials in late November, Hanoi expressed its willingness to peacefully settle disputes in the region, including its military occupation of Kampuchea. The two countries agreed to try to resolve legal and territorial disputes. Vietnam and the Philippines, along with China, Taiwan and Malaysia, claim sovereignty over the Spratly Islands.

Malaysia's prime minister stated December 15 that Vietnam might become a member of Asean in the future, despite its communist government, if Vietnam agrees to follow the principles of Asean. This marks a shift in the Asean policy of the past 10 years of trying to isolate Vietnam and to press for a withdrawal of Vietnamese troops from Kampuchea. With representatives from the Asean countries having recently visited or planning to visit Hanoi, members seem to be trying to create an atmosphere of cooperation through trade with Vietnam even before the resolution of the Kampuchean problem.

Japan has begun trying to encourage regional stability, hoping to speed negotiations among the factions seeking control in Kampuchea. Tokyo has intimated that aid may be held out as a "carrot" to encourage cooperation and quick resolution of conflicts in the Indochina region. Vietnam Vice Foreign Minister Tran Quang Co told the Kyodo News Service in mid-November that he hoped Japan would take on a broader and more constructive diplomatic role to help solve problems in Indochina. Mr. Co believes that Japan, as a world leader, can talk to all parties embroiled in the conflict, including China and the Soviet Union.

[4]Nick Seaward, "Going For Growth," Far Eastern Economic Review, November 3, 1988, p. 90.

Japan was criticized, however, by the vice foreign minister for having been "slow in responding to the Kampuchean issue." Vietnam is hoping for a "more accurate and realistic Japanese approach to the problem."

Burma - Like Vietnam, Burma is not a member of Asean, but it has been trying recently to overcome its diplomatic isolation and to end its self-imposed economic isolation. After several decades of austerity programs and import-substitution policies, Burma had become one of the world's poorest countries. Since the antigovernment riots in the summer of 1988 and the subsequent halt in aid to Burma from major donors such as Japan, the United States and West Germany, Rangoon's new government has been starved for capital. In an attempt to lure foreign capital to the country, a new foreign investment law was introduced November 30. Wholly owned foreign companies will be permitted as well as joint ventures with a minimum 35 percent foreign equity stake. Rangoon is especially looking for export-oriented investments.

The withholding of aid by Japan has significant implications for several reasons. In 1986 Japan gave Burma $244 million in grants and loans, which was almost 80 percent of total Burmese economic assistance.[5] The amount of loans was cut back sharply, however, after Burma was unable to repay its debts. In 1988 Burma received only grant aid from Japan totaling $27.5 million. In what is viewed by many aid specialists as a change in attitude in Japanese policy, Tokyo is intimating a need for governmental stability within Burma before it will continue its assistance program. Japan, unlike the United States, usually has not hinged its aid on political conditions or economic reforms.

Intra-Asean Trade

For Asean to be strengthened, many economists believe that there must be more trade and joint ventures among its member countries. Asean faces some difficulties in accomplishing this since the members have no concrete mechanism to help achieve their goal of economic cooperation. Varying levels of development, differing tariffs, and an unwillingness to surrender some degree of sovereignty to the group are all factors working to frustrate economic cohesion.

The desire for regional cooperation remains strong, but intra-Asean trade between 1981 and 1985 remained relatively flat, around 18 percent of international trade. At the December 1987 Asean summit some progress on tariff reduction was accomplished to promote trade. The goal is that "50 percent of the value or 90 percent of all items [will] be covered under the Preferential Trading Arrangement after five years."[6] Asean members expanded to 50 percent from 25 percent the degree of tariff preferences they will receive.

For a number of years Asean has considered the joint production of cars. The project has bogged down as individual countries sought to go it alone in an

[5]David Sanger, "Japan, Growing Bolder, Tries To Nudge Burma," The New York Times, August 19, 1988, p. A6.

[6]Seiji Naya and Pearl Imada, "Prospects Becoming Slightly Brighter For Expansion Of Intra-Asean Trade," The Asian Wall Street Journal Weekly, September 12, 1988, p. 6B.

attempt to emulate Japan's economic success and as Japanese motor vehicle manufacturers have moved offshore. Now, automotive parts manufacturing plants are scattered throughout Asean, and the Japanese-led joint ventures are trying to gain a competitive edge through reductions in tariffs for intra-Asean trade.

Even when Asean members do cooperate, other factors, such as the terms of finance, can doom projects. A fertilizer manufacturing plant that is a joint venture of Asean members -- except for Brunei -- has been successful by most standards. Unfortunately, the yen-denominated loans from Japan's OECF and Export-Import Bank that financed the facility have more than doubled in repayment value vis-a-vis the ringgit of Malaysia, where the plant is located; thus the operation has become a money-loser. Since it is a government-backed project, there is no current plan to shut down the plant. A reduction in the interest rate on the loans is being considered, however.

Conclusion

Japan's ties with Asean have continued to strengthen in the past two years. Its commitment to the region is seen through its expanding foreign aid efforts there. Moreover, an increased volume of both private and government investment is flowing into the region, with Asean members seeking even more Japanese capital. Not only geopolitical linkages but the necessity of securing natural resources for Japan and capital and technology inflows for Asean will keep these countries close.

The key to Asean economic success, however, may lie in increased intra-Asean trade rather than expanded trade with Japan. Predicated on a desire to cooperate, the December 1987 agreement to raise tariff preferences for Asean members may provide the needed incentives to stimulate trade. Asean is viable and has a great opportunity for growth, both in terms of the regional economy and through additional members.

For further information, contact Gretchen Green.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.